United States Court of Appeals

for the Second Circuit

APPELLANT'S REPLY BRIEF

74-2452

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P/S

IN THE

United States Court of Appeals

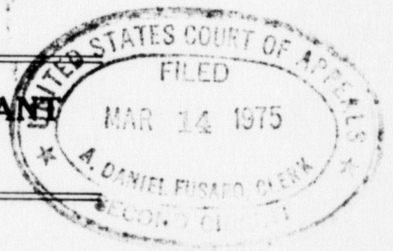
FOR THE SECOND CIRCUIT

DIEMATIC MANUFACTURING CORP.,
Plaintiff-Appellee,

—against—

PACKAGING INDUSTRIES, INC.,
Defendant-Appellant.

On Appeal from the United States District Court for the Southern District of New York



REPLY BRIEF OF DEFENDANT-APPELLANT PACKAGING INDUSTRIES, INC.

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DIEMATIC MANUFACTURING CORP.,

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FOR THE SOUTHERN DISTRICT OF NEW YORK

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REPLY BRIEF OF DEFENDANT-APPELLANT PACKAGING INDUSTRIES, INC.

DIEMATIC'S MISSTATEMENT OF FACTS

Although permitted to do so by Rule 28(b), Fed.R.App.P., appellee, Diematic Manufacturing Corp. ("Diematic") chose not to set forth any couterstatement of the case in its brief (hereinafter "Diematic Br. p.__"). However, throughout its argument Diematic makes factual representations which are not supported by the record herein.

Diematic's major misstatement of fact is that Packaging Industries, Inc. ("PI") has raised the issue of res judicata in this Court for the first time in this litigation. Indeed, Diematic devotes over fifty percent of its brief to this issue, relying upon cases standing for a principle having no application to this appeal (Diematic Br. pp. 3-19).

As is pointed out in PI's main brief, at page 11, the issue of res judicata was quite clearly before the District Court. However inartfully PI may have raised the question, it nevertheless was presented and ruled upon by the District Court (A69, 73, 75, 87, 98, 100, 109-111). In fact, therefor, the District Court had before it 1) the agreement settling the 1965 litigation (A66, 196) which sets out the terms of settlement including the prejudicial dismissals of the then pending State and Federal actions (A69 and 96); 2) the two Stipulations of Dismissal with prejudice (A73, 75, 98, 100); 3) PI's affidavit setting out the history of the prior litigation and its settlement

(A87); and the District Court was fully cognizant of this history (A109-111), and the serious questions posed as a result of the prejudicial dismissal of the prior patent infringement litigation between these parties.

Diematic also asserts that the settlement agreement between the parties "did not admit past infringement" (Diematic Br. p.3) and that the settlement agreement "makes no mention of past infringement and the provision reciting the paid-up royalty is couched in a language of 'settlement' and 'release', and says nothing about possible infringement ..." (Diematic Br. p.9). Diematic's wishful assertion of this fact is satisfactorily put aside by the actual wording of the settlement agreement which states:

> "Release and Payment of Paid-Up Royalty
>
> Upon the execution of this agreement, the LICENSEE has paid to the LICENSOR the sum of Two Thousand Five Hundred Dollars ($2,500.00) by a certified check, as a paid-up royalty and settlement in full for all apparatus embodying and/or practicing said inventions made, made for it, used or sold by LICENSEE prior to the date of this agreement. The Licensor, in regard to all such apparatus made, made for it, used or sold by LICENSEE prior to the date of this agreement, hereby releases LICENSEE and its customers, suppliers, employees and all other persons from any claim under the Licensed Patent." (A69)

Quite simply, a decision upon this appeal cannot rest upon either the failure to assert the res judicata defense below

or the lack of "an adjudication of infringement, or a grant of some relief from which infringement may be inferred ...". Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483 at 485 (2nd Cir. 1946).

ARGUMENT

THE DOCTRINE OF RES JUDICATA IS PROPERLY BEFORE THIS COURT AND IS DISPOSITIVE OF THE APPEAL

The record herein amply demonstrates that the issue of res judicata was properly before the District Court and there is no doubt that the defense may be raised on motion to dismiss before or after answer.* 1B Moore's Federal Practice, ¶0.408[1] p.951. Indeed, a court may, on its own motion, hold that a former judgment is res judicata. Wilson v. U.S., 166 F.2d 527 (8th Cir. 1948).

Nonetheless, Diematic, arguing in favor of "judicial economy" (Diematic Br. p.13) alleges that it shall have a "deleterious effect" upon that economy if the res judicata defense is heard upon this appeal. However, Diematic recognizes that res judicata may be raised in PI's answer, Id. at 16. Such reasoning hardly supports judicial economy: if the parties are remanded to the District Court without this Court's ruling on the question of res judicata, then PI will naturally interpose the

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* It is, of course, admitted that PI has not yet answered the complaint herein (Diematic Br. p. 16).

defense and move for summary judgment thereon whereupon the parties would promptly be before this Court again on the same issue.

Diematic's overreaction to the res judicata issue is made to sound as though the binding prior judgments have just now been called to its attention (Diematic Br. p. 13). Such is not the case. Diematic is represented in the instant action by the same counsel which represented it in the prior actions which were dismissed with prejudice (A123, 98; see also, Addendum to PI's main brief: Pre-trial Order and other pleadings signed by Diematic's counsel.)

Among the more than twenty decisions cited in Diematic's argument in support of its position that res judicata cannot be reviewed by this Court at this time, the overwhelming majority of cases stand for the proposition that an issue will not be considered for the first time on appeal after a full trial on the merits if such issue was not raised at trial. White v. Chicago, Burlington & Quincy Railroad, 417 F.2d 941 (8th Cir. 1969); Wagner v. Retail Credit Co., 338 F.2d 598 (7th Cir. 1964); American Lease Plans Inc v. Hougton Construction Co , 492 F.2d 34 (5th Cir. 1974); Jones v. Tower Production Co., 120 F.2d 779, 782 (10th Cir. 1941); Gardner v. Meyers, 491 F.2d 1184 (8th Cir. 1974); Container Patents Corp. v. Stant, 143 F.2d 170 (7th Cir.

1944); Scott v. Central Commercial Co., 272 F.2d 781 (2nd Cir. 1959) cert. den. 363 U.S. 806, 4 L.Ed. 2d 1149 (1960); Ludwig v. Marion Laboratories, Inc., 465 F.2d 114, 117 (8th Cir. 1972); Roberson v. United States, 382 F.2d 714 (9th Cir. 1967); National Equipment Rental, Ltd. v. Stanley, 283 F.2d 600 (2nd Cir. 1960); Terkildsen v. Waters, 481 F.2d 201 (2nd Cir. 1973); Hormel v. Helvering, 312 U.S. 552 (1941). Moreover, none of these cases involved the issue of res judicata, which was demonstrably present here below.

Of the remaining few cases cited by Diematic, most pertain to appeals after summary judgment where either the issue pressed on appeal was not remotely raised below, Schwartz v. S.S. Nassau, 345 F.2d 439 (2nd Cir. 1965), Poston v. Caraker, 378 F.2d 439 (5th Cir. 1967), Patent & Licensing Corp. v. Olsen, 188 F.2d 522 (2nd Cir. 1951), or a new jurisdictional basis is asserted on appeal, Desert Palace Inc. v. Salisbury, 401 F.2d 320 (7th Cir. 1968), or post appeal-argument relief is sought and denied First National Bank of Cincinnati v. Pepper, 454 F.2d 626 (2nd Cir. 1972), Bowdoin v. Malone, 287 F.2d 282 (5th Cir. 1971).

The only two cases cited by Diematic which, though entirely remote from the facts of the present appeal, do concern res judicata are Travelers Indemnity Co. v. Abrogast, 45 F.R.D.

87 (W.D. Pa. 1968) and Schramm v. Oakes, 352 F.2d 143 (10th Cir. 1965). In the former no appeal was involved, but only a motion to dismiss which was denied by the District Court because of the insufficiency of the papers, the Court stating that res judicata should be raised in the answer. In Schramm, a factually complicated case, the party asserting the res judicata defense seeks to do so for the first time, after trial, and on a motion for rehearing to the Circuit Court after a reversal and remand with directions. The record adduced in this case before the District Court, containing as it does all the facts and law necessary for that Court to decide the issues of res judicata, renders inopposite the rulings relied upon by Diematic in support of its argument that this issue is here raised for the first time.

It would ill serve judicial economy in this instance to remand without deciding the most basic question presented by this case: can a patent infringement action be settled before a trial on the merits, after three years of litigation, and will a judgment of dismissal with prejudice be given res judicata effect, or must the patent holder insist upon a full trial in order to protect the integrity of his patent, at least against the infringer? This Court has answered the question in Broadview Chemical Corp. v. Loctite Corp. 474 F.2d 1391 (2nd Cir. 1973) by upholding the res judicata principle. Packaging Industries urges this Court to affirm that principle again.

CONCLUSION

For the foregoing reasons and those expressed in its main brief, Packaging Industries respectfully requests that the District Court's Order be vacated.

March 14, 1975

Respectfully submitted,

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STATE OF NEW YORK)
: SS.:
COUNTY OF NEW YORK)

PHYLLIS R. THOMAS, being duly sworn, deposes and says: that deponent is over the age of 18 and is not a party to the action and resides at 1504 Ocean Avenue, Brooklyn, New York 11230.

That on the 14th day of March, 1975 deponent served the within:

REPLY BRIEF OF DEFENDANT-APPELLANT
PACKAGING INDUSTRIES, INC.

upon:

Wyatt, Gerber & Shoup
Attorneys for Plaintiff-Appellee
Diematic Manufacturing Corp.
230 Park Avenue
New York, New York 10017

at the address designated by said attorneys, by enclosing same in a postpaid, properly addressed envelope, and depositing same in an official depository under the exclusive care and custody of the United States Postal Service in the City and Sate of New York.

Phyllis R. Thomas
PHYLLIS R. THOMAS

Sworn to before me this
14th day of March, 1975

Robert C. Noonan
Notary Public

ROBERT C. NOONAN
Notary Public, State of New York
No. 31-4524253
Qualified in New York County
Commission Expires March 30, 1976